Fiscal Note 2011 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0513		**Title:**	Circuit breaker program to mitigate reappraisal
Primary Sponsor:	Brueggeman, John		**Status:**	As Introduced

- [x] Significant Local Gov Impact
- [ ] Needs to be included in HB 2
- [x] Technical Concerns
- [ ] Included in the Executive Budget
- [x] Significant Long-Term Impacts
- [ ] Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	($32,885,790)	$4,730,915	$5,042,331	$526,872
Revenue:				
General Fund	$20,388,917	$9,727,626	($1,299,115)	($12,688,156)
State Special Revenue	$65,806	($623,599)	($1,334,653)	($2,069,219)
Net Impact-General Fund Balance:	$53,274,707	$4,996,711	($6,341,446)	($13,215,028)

Description of fiscal impact:
This bill offsets the impacts of the 2008 reappraisal of residential, commercial, agricultural, and forest real estate by changing the tax rates and exemptions for these types of properties and providing an income tax credit for property taxes that are more than 2% of a household's income.

Note that this fiscal note is written from current law and not from HJR2. In almost all fiscal notes, current law and HJR2 are the same. In the case of property tax for this biennium, the Legislature intentionally reduced the estimates in HJR 2 for the mitigation anticipated during this legislative session. The impacts of this legislation relative to HJR 2 are shown on page 15. Please use page 15 for purposes of comparing to HJR 2 or the general fund status.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Table 1 shows the change in market value due to the 2008 reappraisal for agricultural, residential, commercial, and forest real property.

Table 1
Changes in Value Due to Reappraisal

	------------------ Full Market Value ------------------			
Type of Property	**2003 Reappraisal**	**2009 Reappraisal**	**Difference in Value**	**Percent Change**
Class 3 - Agricultural Land	**$4,446,329,036**	**$5,636,120,313**	**$1,189,791,277**	**26.8%**
Class 4 - Residential Property	$48,714,569,856	$75,575,222,942	$26,860,653,087	55.1%
Class 4 - Commercial: Multifamily Property	$2,226,005,531	$2,964,215,783	$738,210,253	33.2%
Class 4 - Commercial: All Other Property	$11,464,532,592	$15,444,499,573	$3,979,966,981	34.7%
Subtotal Class 4 Commercial	*$13,690,538,123*	*$18,408,715,357*	*$4,718,177,234*	*34.5%*
Class 4 Total	**$62,405,107,979**	**$93,983,938,299**	**$31,578,830,320**	***50.6%***
Class - 10 Forest Land	**$1,947,330,452**	**$2,999,858,721**	**$1,052,528,269**	**54.0%**

2. This bill changes the taxation of four classes of property: residential, commercial, agricultural, and forest real estate. It also replaces existing property tax assistance programs with a general income tax credit.

   This fiscal note first discusses one change in taxation that is common to all four classes. Then it discusses changes specific to each of the four classes, and shows the resulting changes in taxable value. The discussion of property tax changes concludes with the resulting change in state property tax revenues.

   The income tax credit would be financed by a new statewide mill levy. The tax credit section first presents an estimate of the amount of credits. It then calculates the necessary mill levy and estimates the appropriation necessary to make early credit payments.

<u>Elimination of Phase-in</u>

3. Residential, commercial, agricultural, and forest real estate are appraised every six years. These properties were reappraised in 2008. Under current law, increases in value are phased in over a six year period. This bill would eliminate the phase-in and make the new values from the 2008 reappraisal apply for tax year 2009.
4. Growth of state and local revenue from property taxes is limited by Section 15-10-420, MCA. In general, this requires mill levies to be set so that revenue raised from pre-existing property grows by no more than half the rate of inflation. In many local jurisdictions, and for the state education levies, the increase in taxable value from reappraisal will result in lower mill levies. Eliminating the phase-in of property value increases will not change state and local revenue limits, but will require larger mill levy reductions to stay within the revenue limits.

<u>Class 3 – Agricultural Land</u>

5. Under current law, qualified agricultural land is taxed at the same rate as residential and commercial real estate, 3.01%. This bill changes the tax rate for qualified agricultural land to 2.56%. Parcels between 20 and 160 acres that do not meet use and income tests to be classified as qualified agricultural land are classed as non-qualified agricultural land and are taxed at a rate seven times the rate for qualified agricultural land. This bill maintains that ratio.
6. The following table shows the calculation of taxable value for agricultural land under current law and under SB 513. It also shows the difference in taxable value and the resulting differences in state property tax revenue.

   The columns are labeled by the fiscal year when taxes are paid. Taxes on real estate are due in November of the tax year and May of the following tax year. For example, the column labeled FY 2009 shows taxes for tax year 2008 that are paid in FY 2009. The line labeled "Market Value" shows the total assessed value for each year. The line labeled "Tax Rate" shows the rate for qualified agricultural land. The line labeled "effective tax rate" shows the weighted average of the rates for qualified and non-qualified agricultural land. Multiplying the effective tax rate by the market value gives the taxable value. Taxable value is multiplied by the state mill levies to give revenue to the general fund and the university system.
   The bottom part of the table shows the difference in taxable value for each year and the differences in state revenue.

Table 2 - Class 3 Agricultural Land - Fiscal Impact of SB 513 Reappraisal Mitigation

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Market Value	$4,446,329,036	$5,636,120,313	$5,636,120,313	$5,653,781,669	$5,702,155,596
Tax Rate	**3.01%**	**2.56%**	**2.56%**	**2.56%**	**2.56%**
(effective tax rate)	*3.20%*	*2.72%*	*2.72%*	*2.72%*	*2.72%*
Taxable Value	$142,099,000	$153,194,491	$153,194,491	$153,674,542	$154,989,386
State Mill Levies					
State Equalization Mills	95.53	56.450	56.450	56.450	56.450
University Mills	6.00	3.340	3.340	3.340	3.340
State Revenue					
General Fund	**$13,574,717**	**$8,647,829**	**$8,647,829**	**$8,674,928**	**$8,749,151**
University System	**$852,594**	**$511,670**	**$511,670**	**$513,273**	**$517,665**
Current Law (six-year phase-in no change in 95 and 6 mill rates)					
Market Value	$4,446,329,036	$4,644,627,582	$4,842,926,128	$5,057,021,865	$5,300,285,091
Tax Rate	**3.01%**	**3.01%**	**3.01%**	**3.01%**	**3.01%**
(effective tax rate)	*3.20%*	*3.20%*	*3.20%*	*3.20%*	*3.20%*
Taxable Value	$142,099,000	$148,436,368	$154,773,737	$161,615,963	$169,390,345
State Revenue					
State Mills (95.53 mills)	**$13,574,717**	**$14,180,126**	**$14,785,535**	**$15,439,173**	**$16,181,860**
University Mills (6 mills)	**$852,594**	**$890,618**	**$928,642**	**$969,696**	**$1,016,342**
Difference (SB 513 - Current Law)					
Taxable Value	($0)	$4,758,123	($1,579,246)	($7,941,421)	($14,400,960)
Difference in State Revenue					
State Mills (95.53 mills)	**($0)**	**($5,532,297)**	**($6,137,706)**	**($6,764,245)**	**($7,432,709)**
University Mills (6 mills)	**($0)**	**($378,949)**	**($416,973)**	**($456,423)**	**($498,678)**

Class 4 – Residential and Commercial Multi-Family Real Estate

7. Under current law, 34% of the value of residential land and improvements; commercial multi-family property such as apartment buildings; and residences on agricultural land, along with and one acre the residence sits on, is exempt from property tax. The remaining value has a tax rate of 3.01% this bill eliminates the 34% exemption and changes the tax rate to 3.0%.
   Tables 3 and 4 show the resulting changes in taxable value and state tax revenue. Table 3 shows residential property and Table 4 shows commercial multi-family property. The line labeled "Market

Value" is the total assessed value of Class 4 Residential property. The line labeled "Homestead Rate" shows the percentage of assessed value that is exempt. Multiplying market value by (100% – homestead rate) gives taxable market value, shown in the next line. This is multiplied by the tax rate to give taxable value. Taxable value is multiplied by the state mill levies to give state revenue. The bottom part of the table shows the difference in taxable value and revenue for each year.

Table 3 - Class 4 Residential Real Property - Fiscal Impact of SB 513 Reappraisal Mitigation

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Market Value	$48,714,569,856	$78,709,969,882	$81,464,870,149	$84,023,978,332	$86,663,494,917
Homestead Rate	**34.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Taxable Market Value	$32,151,616,105	$78,709,969,882	$81,464,870,149	$84,023,978,332	$86,663,494,917
Tax Rate	**3.01%**	**3.00%**	**3.00%**	**3.00%**	**3.00%**
Taxable Value	$967,763,645	$2,361,299,096	$2,443,946,104	$2,520,719,350	$2,599,904,847
State Equalization Mills	95.53	56.450	56.450	56.450	56.450
University Mills	6.00	3.340	3.340	3.340	3.340
State Revenue					
State Mills	**$92,450,461**	**$133,295,334**	**$137,960,758**	**$142,294,607**	**$146,764,629**
University Mills	**$5,806,582**	**$7,886,739**	**$8,162,780**	**$8,419,203**	**$8,683,682**
Current Law (six-year phase-in)					
Market Value	$48,714,569,856	$55,053,008,613	$61,613,365,387	$68,166,272,860	$74,925,046,142
Homestead Rate	**34%**	**34%**	**34%**	**34%**	**34%**
Taxable Market Value	$32,151,616,105	$36,334,985,685	$40,664,821,155	$44,989,740,088	$49,450,530,454
Tax Rate	**3.01%**	**3.01%**	**3.01%**	**3.01%**	**3.01%**
Taxable Value	$967,763,645	$1,093,683,069	$1,224,011,117	$1,354,191,177	$1,488,460,967
State Revenue					
State Mills (95.53 mills)	**$92,450,461**	**$104,479,544**	**$116,929,782**	**$129,365,883**	**$142,192,676**
University Mills (6 mills)	**$5,806,582**	**$6,562,098**	**$7,344,067**	**$8,125,147**	**$8,930,766**
Difference (SB 513 - Current Law)					
Taxable Value	$0	$1,267,616,027	$1,219,934,988	$1,166,528,173	$1,111,443,881
State Revenue					
State Mills (95.53 mills)	**$0**	**$28,815,790**	**$21,030,976**	**$12,928,724**	**$4,571,952**
University Mills (6 mills)	**$0**	**$1,324,641**	**$818,713**	**$294,056**	**($247,084)**

Table 4 - Class 4 (Commercial) Multifamily Residences - Fiscal Impact of SB 513 Reappraisal Mitigation	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Market Value	$2,226,005,531	$3,067,961,450	$3,175,342,101	$3,275,091,157	$3,377,974,377
Homestead Rate	**34.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Taxable Market Value	$1,469,163,650	$3,067,961,450	$3,175,342,101	$3,275,091,157	$3,377,974,377
Tax Rate	**3.01%**	**3.00%**	**3.00%**	**3.00%**	**3.00%**
Taxable Value	$44,221,826	$92,038,843	$95,260,263	$98,252,735	$101,339,231
State Equalization Mills	95.53	56.450	56.450	56.450	56.450
University Mills	6.00	3.340	3.340	3.340	3.340
State Revenue					
State Mills	**$4,224,511**	**$5,195,593**	**$5,377,442**	**$5,546,367**	**$5,720,600**
University Mills	**$265,331**	**$307,410**	**$318,169**	**$328,164**	**$338,473**
Current Law (six-year phase-in)					
Market Value	$2,226,005,531	$2,349,040,573	$2,472,075,615	$2,595,110,657	$2,718,145,699
Homestead Rate	**34%**	**34%**	**34%**	**34%**	**34%**
Taxable Market Value	$1,469,163,650	$1,550,366,778	$1,631,569,906	$1,712,773,034	$1,793,976,161
Tax Rate	**3.01%**	**3.01%**	**3.01%**	**3.01%**	**3.01%**
Taxable Value	$44,221,826	$46,666,040	$49,110,254	$51,554,468	$53,998,682
State Revenue					
State Mills (95.53 mills)	**$4,224,511**	**$4,458,007**	**$4,691,503**	**$4,924,998**	**$5,158,494**
University Mills (6 mills)	**$265,331**	**$279,996**	**$294,662**	**$309,327**	**$323,992**
Difference (SB 513 - Current Law)					
Taxable Value	$0	$45,372,803	$46,150,009	$46,698,266	$47,340,549
State Revenue					
State Mills (95.53 mills)	**$0**	**$737,586**	**$685,939**	**$621,369**	**$562,105**
University Mills (6 mills)	**$0**	**$27,413**	**$23,508**	**$18,837**	**$14,481**

Class 4 – Commercial Real Estate

8. Under current law, 15% of the value of commercial land and improvements is exempt from property tax. The remaining value has a tax rate of 3.01% This bill makes 37.62% of the value exempt and changes the tax rate to 3.0%. Table 5 shows the resulting change in taxable value. It is organized the same as Tables 3 and 4, except that the commercial exemption percentage, labeled "Comstead Rate", replaces the residential exemption percentage.

Table 5 - Class 4 Commercial Real Property - Fiscal Impact of SB 513 Reappraisal Mitigation

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Market Value	$11,464,532,592	$15,985,047,231	$16,544,534,307	$17,064,258,368	$17,600,312,407
Comstead Rate	**15.00%**	**37.62%**	**37.62%**	**37.62%**	**37.62%**
Taxable Market Value	$9,744,852,704	$9,971,472,463	$10,320,480,501	$10,644,684,370	$10,979,074,880
Tax Rate	**3.01%**	**3.00%**	**3.00%**	**3.00%**	**3.00%**
Taxable Value	$293,320,066	$299,144,174	$309,614,415	$319,340,531	$329,372,246
State Equalization Mills	95.53	56.450	56.450	56.450	56.450
University Mills	6.00	3.340	3.340	3.340	3.340
State Revenue					
State Mills	**$28,020,866**	**$16,886,689**	**$17,477,734**	**$18,026,773**	**$18,593,063**
University Mills	**$1,759,920**	**$999,142**	**$1,034,112**	**$1,066,597**	**$1,100,103**
Current Law (six-year phase-in)					
Market Value	$11,464,532,592	$12,552,327,821	$13,678,212,215	$14,792,060,036	$15,940,901,090
Comstead Rate	**15%**	**15%**	**15%**	**15%**	**15%**
Taxable Market Value	$9,744,852,704	$10,669,478,648	$11,626,480,383	$12,573,251,030	$13,549,765,926
Tax Rate	**3.01%**	**3.01%**	**3.01%**	**3.01%**	**3.01%**
Taxable Value	$293,320,066	$321,151,307	$349,957,060	$378,454,856	$407,847,954
State Revenue					
State Mills (95.53 mills)	**$28,020,866**	**$30,679,584**	**$33,431,398**	**$36,153,792**	**$38,961,715**
University Mills (6 mills)	**$1,759,920**	**$1,926,908**	**$2,099,742**	**$2,270,729**	**$2,447,088**
Difference (SB 513 - Current Law)					
Taxable Value	$0	($22,007,133)	($40,342,645)	($59,114,325)	($78,475,708)
State Revenue					
State Mills (95.53 mills)	**$0**	**($13,792,896)**	**($15,953,664)**	**($18,127,019)**	**($20,368,652)**
University Mills (6 mills)	**$0**	**($927,766)**	**($1,065,630)**	**($1,204,132)**	**($1,346,984)**

Class 10 – Forest Land

9. Under current law, the tax rate on forest land is 0.35%. This bill changes the tax rate to 0.23%. Table 6 shows the resulting change in taxable value and state property tax revenue.

Table 6 - Class 10 Forestland - Fiscal Impact of SB 513 Reappraisal Mitigation

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Market Value	$1,947,330,452	$2,999,858,721	$2,999,858,721	$3,009,259,083	$3,035,006,395
Tax Rate	**0.35%**	**0.23%**	**0.23%**	**0.23%**	**0.23%**
Taxable Value	$6,815,657	$6,899,675	$6,899,675	$6,921,296	$6,980,515
State Mill Levies					
State Equalization Mills	95.53	56.450	56.450	56.450	56.450
University Mills	6.00	3.340	3.340	3.340	3.340
State Revenue					
State Mills	**$651,100**	**$389,487**	**$389,487**	**$390,707**	**$394,050**
University Mills	**$40,894**	**$23,045**	**$23,045**	**$23,117**	**$23,315**
Current Law (six-year phase-in no change in 95 and 6 mill rates)					
Market Value	$1,947,330,452	$2,122,751,830	$2,298,173,208	$2,481,345,847	$2,679,498,606
Tax Rate	**0.35%**	**0.35%**	**0.35%**	**0.35%**	**0.35%**
Taxable Value	$6,815,657	$7,429,631	$8,043,606	$8,684,710	$9,378,245
State Revenue					
State Mills (95.53 mills)	**$651,100**	**$709,753**	**$768,406**	**$829,650**	**$895,904**
University Mills (6 mills)	**$40,894**	**$44,578**	**$48,262**	**$52,108**	**$56,269**
Difference (SB 513 - Current Law)					
Taxable Value	$0	($529,956)	($1,143,931)	($1,763,415)	($2,397,730)
Diffrence in State Revenue					
State Mills (95.53 mills)	**$0**	**($320,266)**	**($378,919)**	**($438,943)**	**($501,854)**
University Mills (6 mills)	**$0**	**($21,533)**	**($25,217)**	**($28,991)**	**($32,955)**

State Property Tax Revenue

10. Table 7 shows state general fund revenue from each of the reappraised classes under SB 513, under current law, and the difference.

Table 7 - Summary of Change in General Fund Property Tax Revenue - SB 513	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Class 3 - Agricutural Land	$13,574,717	$8,647,829	$8,647,829	$8,674,928	$8,749,151
Class 4 - Residential	$92,450,461	$133,295,334	$137,960,758	$142,294,607	$146,764,629
Class 4 - Commercial: Multifamily Property	$4,224,511	$5,195,593	$5,377,442	$5,546,367	$5,720,600
Class 4 - Commercial: All Other Property	$28,020,866	$16,886,689	$17,477,734	$18,026,773	$18,593,063
Class 4 Total	*$124,695,838*	*$155,377,615*	*$160,815,933*	*$165,867,747*	*$171,078,292*
Class - 10 Forest Land	$651,100	$389,487	$389,487	$390,707	$394,050
Total	**$138,921,655**	**$164,414,931**	**$169,853,249**	**$174,933,382**	**$180,221,492**
Current Law (six-year phase-in)					
Class 3 - Agricutural Land	$13,574,717	$14,180,126	$14,785,535	$15,439,173	$16,181,860
Class 4 - Residential Property	$92,450,461	$104,479,544	$116,929,782	$129,365,883	$142,192,676
Class 4 - Commercial: Multifamily Property	$4,224,511	$4,458,007	$4,691,503	$4,924,998	$5,158,494
Class 4 - Commercial: All Other Property	$28,020,866	$30,679,584	$33,431,398	$36,153,792	$38,961,715
Class 4 Total	*$124,695,838*	*$139,617,135*	*$155,052,682*	*$170,444,674*	*$186,312,885*
Class - 10 Forest Land	$651,100	$709,753	$768,406	$829,650	$895,904
Total	**$138,921,655**	**$154,507,014**	**$170,606,623**	**$186,713,497**	**$203,390,649**
Difference (SB 513 - Current Law)					
Class 3 - Agricutural Land	($0)	($5,532,297)	($6,137,706)	($6,764,245)	($7,432,709)
Class 4 - Residential Property	$0	$28,815,790	$21,030,976	$12,928,724	$4,571,952
Class 4 - Commercial: Multifamily Property	$0	$737,586	$685,939	$621,369	$562,105
Class 4 - Commercial: All Other Property	$0	($13,792,896)	($15,953,664)	($18,127,019)	($20,368,652)
Class 4 Total	*$0*	*$15,760,481*	*$5,763,251*	*($4,576,927)*	*($15,234,594)*
Class - 10 Forest Land	$0	($320,266)	($378,919)	($438,943)	($501,854)
Total	($0)	**$9,907,917**	**($753,374)**	**($11,780,115)**	**($23,169,156)**

11. Table 8 shows university system revenue from each of the reappraised classes under SB 513, under current law, and the difference.

Table 8 - Summary of Change in University State Special Property Tax Revenue - SB 513

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SB 513 (no phase-in)					
Class 3 - Agricutural Land	**$852,594**	**$511,670**	**$511,670**	**$513,273**	**$517,665**
Class 4 - Residential	$5,806,582	$7,886,739	$8,162,780	$8,419,203	$8,683,682
Class 4 - Commercial: Multifamily Property	$265,331	$307,410	$318,169	$328,164	$338,473
Class 4 - Commercial: All Other Property	$1,759,920	$999,142	$1,034,112	$1,066,597	$1,100,103
Class 4 Total	**$7,831,833**	**$9,193,290**	**$9,515,061**	**$9,813,964**	**$10,122,259**
Class - 10 Forest Land	$40,894	$23,045	$23,045	$23,117	$23,315
Total	**$8,725,321**	**$9,728,005**	**$10,049,776**	**$10,350,354**	**$10,663,238**
Current Law (six-year phase-in)					
Class 3 - Agricutural Land	$852,594	$890,618	$928,642	$969,696	$1,016,342
Class 4 - Residential Property	$5,806,582	$6,562,098	$7,344,067	$8,125,147	$8,930,766
Class 4 - Commercial: Multifamily Property	$265,331	$279,996	$294,662	$309,327	$323,992
Class 4 - Commercial: All Other Property	$1,759,920	$1,926,908	$2,099,742	$2,270,729	$2,447,088
Class 4 Total	**$7,831,833**	**$8,769,002**	**$9,738,471**	**$10,705,203**	**$11,701,846**
Class - 10 Forest Land	$40,894	$44,578	$48,262	$52,108	$56,269
Total	**$8,725,321**	**$9,704,198**	**$10,715,375**	**$11,727,007**	**$12,774,457**
Difference (SB 513 - Current Law)					
Class 3 - Agricutural Land	($0)	($378,949)	($416,973)	($456,423)	($498,678)
Class 4 - Residential Property	$0	$1,324,641	$818,713	$294,056	($247,084)
Class 4 - Commercial: Multifamily Property	$0	$27,413	$23,508	$18,837	$14,481
Class 4 - Commercial: All Other Property	$0	($927,766)	($1,065,630)	($1,204,132)	($1,346,984)
Class 4 Total	*$0*	*$424,288*	*($223,409)*	*($891,239)*	*($1,579,587)*
Class - 10 Forest Land	$0	($21,533)	($25,217)	($28,991)	($32,955)
Total	**($0)**	**$23,806**	**($665,599)**	**($1,376,653)**	**($2,111,219)**

<u>Property Tax Assistance Programs</u>

12. This bill repeals the existing elderly homeowner-renter credit, the property tax assistance program, the extended property tax assistance program, and the disabled veterans' property tax exemption. The elderly homeowner-renter credit is a refundable income tax credit. The HJR2 income tax revenue estimate assumes that credits will be $9.811 million per year. The other three programs all reduce participants' property taxes, and their effects are implicit in the property tax revenue estimate. For tax year 2007, these three programs together reduced statewide taxable value by $7.052 million. This lower taxable value reduced general fund revenue by $0.670 million (95 mills x $7.052 million) and reduced revenue to the university system by $0.042 million (6 mills x $7.052 million). Future tax reductions from these programs are unknown and will depend on future incomes and property taxes of eligible taxpayers and the fraction of eligible taxpayers who choose to participate. This fiscal note assumes that, under current law, tax reductions would continue at the 2007 level. Thus, repealing these four programs would increase general fund revenue by $10.481 million and increase revenue to the university system by $0.042 each year.

<u>Income Tax Credit for Property Taxes over 2% of Income</u>

13. Sections 3 through 8 of this bill provide a circuit breaker income tax credit for a portion of property taxes that owners of residential property pay directly or renters pay through their rent. The credit is any excess of property tax (paid directly or through 15% of rent) over 2% of the taxpayer's household income, with a cap of $5,000. for taxpayers with household income greater than $150,000, the credit is reduced by $1 for each $10 of income over $150,000. Taxpayers who are disabled veterans or the surviving spouse of a deceased veteran with income between $44,000 and $50,000 would be eligible for a credit for property taxes greater than 1% of their household income, with a $5,000 cap. Disabled veterans and surviving

spouses with household income less than $44,000 would be eligible for a credit equal to the full amount of property taxes paid, up to $5,000.

14. After tax year 2011, property taxes used to calculate the credit would not include voted levies.
15. Property tax and income tax records were matched for taxpayers who claimed the $400 property tax rebate. This gave a set of matched 2008 property values and 2007 incomes. For each matched property, the 2008 value was multiplied by the average ratio of values from the 2008 and 2002 appraisals in its levy district to give an estimate of the new value after reappraisal. This new market value was used as the basis for calculating property taxes for tax years 2009 through 2012. For each matched income tax return, the income line items were grown using the assumptions in the HJR2 income tax estimate to give federal adjusted gross income for 2009 through 2012.
16. Credits for each year were calculated for each matched property tax and income tax record. Taxpayers, whose property tax records indicated that they receive the current exemption for disabled veterans, were given the increased credit for disabled veterans. Estimated credits were summed for each levy district, and then the total was multiplied by the ratio of estimated eligible properties to matched property and income tax records in each district.
17. The 2007 distribution of renter households by income and rent was obtained from the Census Bureau's American Community Survey. For each income and rent range, the credit was calculated for a household at the midpoint of rent and income. This average credit was multiplied by the number of households in that range of income and rent, and then credits for income and rent groups were summed to give potential credits for 2007. This was grown by 1.91% per year population growth to give potential credits for 2009 through 2014.
18. Not all eligible households claim the current elderly homeowner-renter credit, and participation appears to be significantly lower among renters. Participation is expected to be much higher for a generally available credit than for the existing elderly homeowner-renter credit, and based on experience with the $400 property tax rebate, participation by homeowners is expected to be close to 100%. Participation by renters is expected to be lower, and this fiscal note assumes that 75% of eligible renters will claim the credit. Potential credits for renters were therefore multiplied by 75%.
19. The following table shows estimated credits for homeowners and renters, and the total, for 2009 through 2012:

SB513: Circuit Breaker Property Tax Credits (Million)

Property Tax Credits	**TY 2009**	**TY 2010**	**TY 2011**	**TY 2012**
Homeowner Credits	$272.906	$272.887	$271.701	$268.766
Renter Credits	$42.390	$43.200	$44.025	$44.866
Total Tax Credits	**$315.296**	**$316.087**	**$315.726**	**$313.632**

The estimate of credits for TY 2012 is overstated by an unknown amount because taxes paid for voted levies would no longer be eligible for the credit.

20. Section 10 provides for a new statewide property tax levy of up to 100 mills to fund the circuit breaker. For 2009, the total cost of the circuit breaker is expected to be $315.296 million. Statewide taxable value will be $3,618.870 million. The levy necessary to fund the circuit breaker is 87.126 mills ($315.926 million / $3,618.870 million). For each succeeding year, the levy necessary to fund the circuit breaker would be calculated for that year from the statewide taxable value and expected amount of credits. The

levies for TY 2010 and TY 2011 would be about 87 mills. The levy for TY 2012 would be lower because the amount of credits would be lower.

21. Section 8 would allow taxpayers who expect to be eligible for the circuit breaker credit to apply for and receive a partial payment of 40% of their expected credit to be used to pay part of their property taxes in November.
22.

Department of Revenue Costs

23. Beginning in the fall of 2009, this bill would require the Department of Revenue to process approximately 150,000 to 180,000 applications for credit prepayments each fall and make payments to qualified applicants, and then process about 250,000 credit forms with tax returns the following spring. The department would be required to calculate new mills for the circuit breaker mill levy every summer. Before 2012, the department would need to work with the county treasurers to identify voted mill levies and have the taxes from voted levies and special assessments stated separately on property tax bills.
24. To track, verify and properly account for credit forms and payments and revenue from the new state mill levy, the department would need to purchase a new module for its data processing system. This would cost $400,000 in FY 2010, and would increase the department's annual maintenance cost by $100,000 in following years. To process the credit forms, the department would need 25 aggregate FTE positions. Each of these positions would be filled with multiple temporary employees for part of each year. Personal services costs would be $848,417 per year. Operating costs associated with these positions would be $182,400 in FY 2010 and $192,400 in following years. One-time costs to set up the new positions would be $120,000 in FY 2010.
25. To verify and audit credit claims, the department would need an additional 10 FTE auditing technicians and a program manager. Personal services costs would be $494,622 per year. Operating costs would be $80,256 in FY 2010 and $84,656 in following years. One-time costs to set up new employees would be $53,900 in FY 2010.
26. The cost to develop a new form for the credit would be $2,100 in FY 2010. Costs to print and mail forms would be $144,523 per year. Charges from the Department of Administration for issuing payments would be $180,303 in FY 2010 and $181,115 in FY 2011 and later years. The department's call center would hire three temporary employees for four months each year to answer taxpayer questions about the credit. Personal services costs for this 1.0 aggregate FTE would be $28,614. Annual operating costs would be $1,796 in FY 2010 and $2,996 per year in following years. One-time costs to set up these positions would be $13,850 in FY 2010.
27. This bill requires county treasurers to change their process for producing property tax bills but does not provide additional funding to the counties. On the assumption that this work would end up being done in the Department of Revenue county offices, the Property Assessment position would need an additional 5.5 FTE to work with counties on this transition. With the immediate phase-in of reappraisal values, the department expects a large increase in the number of taxpayer appeals, even though taxes do not go up proportionally. The department would need an additional 2 FTE in FY 2010 to handle these appeals. Total personal services costs would be $345,739 in FY 2010 and $263,710 in later years. Operating costs would be $52,896 in FY 2010 and $42,328 in FY 42,328 in later years. One time costs to set up new employees would be $34,300 in FY 2010. Modifications to the property tax data processing system would cost $15,295 in FY 2010, and purchase of aerial and satellite images required to bring agricultural land into the six-year reappraisal cycle would costs $30,000 per year. The cost of taxpayer education materials to explain the credit and changes to property tax bills in 2012 would be $50,047 per year in FY 2010 through FY 2012 and $60,000 in FY 2013.

28. The following table shows department costs summarized by division.

SB 513: Department of Revenue Administrative Costs

	FY2010	FY2011	FY2012	FY2013
CSRM	1.0	1.0	1.0	1.0
PAD	7.5	5.5	5.5	5.5
BIT	11.0	11.0	11.0	11.0
IT Pro	25.0	25.0	25.0	25.0
Total FTE	**44.5**	**42.5**	**42.5**	**42.5**
CSRM	$28,614	$28,614	$28,614	$28,614
PAD	$345,739	$263,710	$263,710	$263,710
BIT	$494,622	$494,622	$494,622	$494,622
IT Pro	$848,417	$848,417	$848,417	$848,417
Total Personal Services Costs	**$1,717,392**	**$1,635,363**	**$1,635,363**	**$1,635,363**
CSRM	$328,722	$328,634	$328,634	$328,634
PAD	$148,238	$122,375	$122,375	$132,328
BIT	$80,256	$84,656	$84,656	$84,656
IT Pro	$582,400	$282,400	$292,400	$292,400
Total Annual Operating Costs	**$1,139,616**	**$818,065**	**$828,065**	**$838,018**
CSRM	$13,850	$0	$0	$0
PAD	$34,300	$0	$0	$0
BIT	$53,900	$0	$0	$0
IT Pro	$120,000	$0	$0	$0
Total Equipment	**$222,050**	**$0**	**$0**	**$0**
Total Administrative Costs	**$3,079,058**	**$2,453,428**	**$2,463,428**	**$2,473,381**

Customer Service and Resource Management Division
PAD - Property Assessment Division
BIT - Business and Income Taxes Division
IT Pro - Information Technology and Processing Division

Office of Public Instruction

29. The change in taxable value from present law to SB 513 would have a GTB savings to the state general fund of $24.8 million in FY 2010, and a cost to the state in future years of $1.2 million in FY 2011, $1.4 million in FY 2012 and $1.6 million in FY 2013.

30. County school levies for all district funds will not change the amount of revenue received due to this bill as local school district mills float to adjust. The amount each taxpayer will pay will change based on the assessed value of their property.
31. Countywide retirement GTB will decrease due to the increase in taxable values by approximately $11.1 million in FY 2010, and will increase in subsequent years by $1.1 million in FY 2011, and $1.2 million in subsequent years. This is based on a historical average of 28% of the costs paid by the state and FY 2009 county levies of $65.1 million.

	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Increase in Taxable Value	61.0708%	-6.1597%	-6.5381%	-6.5363%
FY 2009 County Levies	$65,100,000	$65,100,000	$65,100,000	$65,100,000
State Share	28%	28%	28%	28%
County Retirement	($11,131,985)	$1,122,785	$1,191,761	$1,191,429

32. Revenue received from county school levies for all district funds will not change due to this bill. Local school district mills would adjust to provide the needed revenue. The amount each taxpayer pays will change based on property tax value changes.
33. The GTB savings to the state general fund from HJR 2 to present law is $2.0 million in FY 2010 and about $2.5 million in subsequent years.

Expenditure and Revenue Impact Relative to Current Law

Fiscal Impact:	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Department of Revenue				
FTE	59.50	57.50	57.50	57.50
Expenditures:				
Personal Services	$1,717,329	$1,635,363	$1,635,363	$1,635,363
Operating Expenses	$1,139,616	$818,065	$828,065	$838,018
Equipment	$222,050	$0	$0	$0
TOTAL Expenditures	$3,078,995	$2,453,428	$2,463,428	$2,473,381
Office of Public Instruction				
Expenditures:				
Local Assitance:GTB	($24,832,800)	$1,154,702	$1,387,142	$1,592,062
Local Assistance: Co. Retire. (GTB)	($11,131,985)	$1,122,785	$1,191,761	$1,191,429
TOTAL Expenditures	($35,964,785)	$2,277,487	$2,578,903	$2,783,491
Funding of Expenditures (all agencies):				
General Fund (01)	($32,885,790)	$4,730,915	$5,042,331	$5,256,872
Revenue				
Tax Credits (01)	($315,296,000)	($316,087,000)	($315,726,000)	($313,632,000)
Circuit Breaker Levy (01)	$315,296,000	$316,087,000	$315,726,000	$313,632,000
General Fund Property Tax Mitigation	$9,907,917	($753,374)	($11,780,115)	($23,169,156)
Removal Property Tax Programs (01)	$10,481,000	$10,481,000	$10,481,000	$10,481,000
Total General Fund Revenue	$20,388,917	$9,727,626	($1,299,115)	($12,688,156)
Removal Property Tax Programs (02)	$42,000	$42,000	$42,000	$42,000
SSR (6 mill) Property Tax Mitigation	$23,806	($665,599)	($1,376,653)	($2,111,219)
Total State Special Revenue	$65,806	($623,599)	($1,334,653)	($2,069,219)
TOTAL Revenues	$20,454,723	$9,104,027	($2,633,768)	($14,757,375)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$53,274,707	$4,996,711	($6,341,446)	($17,945,028)
State Special Revenue (02)	$65,806	($623,599)	($1,334,653)	($2,069,219)

Expenditure and Revenue Impact Relative to HJR 2

Fiscal Impact:	**FY 2010 Difference**	**FY 2011 Difference**	**FY 2012 Difference**	**FY 2013 Difference**
Department of Revenue				
FTE	59.50	57.50	57.50	57.50
Expenditures:				
Personal Services	$1,717,392	$1,635,363	$1,635,363	$1,635,363
Operating Expenses	$1,139,616	$818,065	$828,065	$838,018
Equipment	$222,050	$0	$0	$0
TOTAL Expenditures	$3,079,058	$2,453,428	$2,463,428	$2,473,381
Office of Public Instruction				
Expenditures:				
Local Assitance:GTB	($26,834,215)	($1,431,726)	($1,181,667)	($917,357)
Local Assistance: Co. Retire. (GTB)	($1,315,077)	($1,276,653)	($2,102,272)	($1,980,855)
TOTAL Expenditures	($28,149,292)	($2,708,379)	($3,283,939)	($2,898,212)
Funding of Expenditures (all agencies):				
General Fund (01)	($25,070,234)	($254,951)	($820,511)	($424,831)
Revenue				
Tax Credits (01)	($315,296,000)	($316,087,000)	($315,726,000)	($313,632,000)
Circuit Breaker Levy (01)	$315,296,000	$316,087,000	$315,726,000	$313,632,000
General Fund Property Tax Mitigation	$19,450,995	$18,635,385	$17,695,329	$16,697,984
Removal Property Tax Programs (01)	$10,481,000	$10,481,000	$10,481,000	$10,481,000
Total General Fund Revenue	$29,931,995	$29,116,385	$28,176,329	$27,178,984
Removal Property Tax Programs (02)	$42,000	$42,000	$42,000	$42,000
SSR (6 mill) Property Tax Mitigation	$623,183	$552,161	$474,626	$392,736
Total State Special Revenue	$665,183	$594,161	$516,626	$434,736
TOTAL Revenues	$30,597,178	$29,710,546	$28,692,955	$27,613,720
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$55,002,229	$29,371,336	$28,996,840	$27,603,815
State Special Revenue (02)	$665,183	$594,161	$516,626	$434,736

Effect on County or Other Local Revenues or Expenditures:

1. This bill would require taxes from voted and non-voted levies to be stated separately on property tax bills beginning in tax year 2012. This would require counties to change the process and format for property tax bills.

Technical Notes:

1. If section 3(8) was amended to 5 acre, instead of 1 acre the administrate cost of this bill could be reduced. Because current property tax bills are based on the property value of the entire property, the property tax bill may show the value associated with the land and building(s), but not a breakdown when the property exceeds the one acre. Over 65,000 property records would need to be modified to comply with section 3 of the bill.
2. If the intent of subsection 4(3) is to provide a credit for property taxes paid on the individual income tax return, then the not after claimant should be struck.
3. Section 10 creates a new statewide levy to fund a circuit breaker program. There is no mention as to how this money would be transferred to the state. A section with language similar to 15-10-107 to state it must be deposited in a specific account should be added.
4. In section 20 the reference to "except as provided in subsection (7)(d)(ii)," should be deleted.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*